



How to Amass a \$1 Million RRSP

Description

The experts generally agree. You're going to need at least \$1 million to retire—perhaps even more.

Yes, costs do go down in retirement. You'll no longer have to commute to work, or buy expensive office clothes, or even put money aside for your golden years. You'll likely be paying less tax, too. Those are all important factors to consider.

But at the same time, other costs will go up. You'll have more time to spend with the grandkids—something that inevitably costs money. And many retirees want to leave a legacy, which could include anything from an inheritance to helping out with a down payment to donating to charity.

There's one easy way to ensure you have enough money to do all of that. Save now and let compound interest do its work.

Here are a few tips on how to make sure you're a millionaire come retirement time.

Start now

"Compound interest is the eighth wonder of the world."

That quote is usually attributed to Albert Einstein, but there's little evidence he actually uttered those words. The good news is it really doesn't matter who said it.

I'm constantly amazed at compound interest, and I think about this stuff on a daily basis. Investing early has a massive impact on returns.

The parable of the twins illustrates this nicely. Imagine we have a set of twins who are saving for retirement and can earn 8% on their investments. The first starts contributing \$3,000 per year at 22, stopping at 32. The other starts at age 32 and invests \$3,000 each year until age 62.

The first ends up with more money, accumulating a nest egg of \$437,000 versus \$340,000, even though the initial investment is far less. That's the power of compounding, showing why it's so important

to start now.

Don't touch it

It's a common move for Canadians to raid their RRSPs to pay for the purchase of a house. They then have 15 years to pay back that loan to themselves or face the penalties.

I'm not a fan of anything that interrupts the magic of compounding. And an RRSP loan certainly interrupts the growth of investments.

Besides, I truly believe the next 20 years will see little to no gain in the price of residential real estate in Canada. The last couple of decades have just been too good. We'll regress to the mean.

Pick great stocks

I think investors should choose great companies to invest in and forget about them, adding when the market sells off.

One great choice is **H&R Real Estate Investment Trust** ([TSX:HR.UN](#)). H&R is Canada's second-largest REIT with assets of \$14 billion. It owns office, industrial, retail, and even some residential real estate in both Canada and the United States. It pays a 6% dividend and hasn't missed a payout in years.

All H&R has to do is grow the share price by 4% annually and continue to pay its 6% dividend for investors to get a 10% return from the company.

H&R shares currently trade for about 10 times the company's projected 2016 adjusted funds from operations—a reasonable valuation. They also trade slightly under book value.

Another great long-term hold is **Intact Financial Corporation** ([TSX:IFC](#)), Canada's largest property and casualty insurer.

Intact has two main advantages over competitors.

The first is its underwriting skill. Intact consistently posts a better combined ratio than its peers, which leads to better profits.

The other is its size. Intact owns about 17% of the market, which doesn't seem that impressive at first glance. But that makes it the undisputed leader in a very fragmented sector: an industry that it plans to consolidate.

Over the past five years, Intact has delivered a total return—including reinvested dividends—of 12.66% a year. There's no guarantee it can replicate those returns, but I like its chances.

The bottom line

Getting a \$1 million RRSP is simple. It takes patience, investing early, and picking great stocks like H&R REIT and Intact Financial. As long as you put enough away in your earlier years and don't interrupt the power of compounding, you'll make it.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

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2. TSX:IFC (Intact Financial Corporation)

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Date

2025/07/07

Date Created

2016/11/02

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